

SCA September 2022 BEST OF BREED

What defines best of breed

1. Gaining market share, or already dominates its market
2. Built “eco-system” that locks clients into their goods
3. Having excess cash to re-invest in business
4. Continually improving product, adding product
5. These tend to be “established companies” not the fastest growers and thus usually not trading at excessive valuations (except when the market is). New product lines can cause revenue/earnings surges for a couple of years, but then they will settle back into their normal valuation ranges
6. For the most part (see bullet point 8) these should be businesses that you understand, so you can see if competition is taking away business.

What breed are you looking for

1. Businesses that are growing rather than contracting
 - a. Where will corporate America (the world) be spending money next year/next 5 years?
 - b. Enterprise software vs tobacco
 - c. Cyber security, IT, Clean energy, reducing carbon footprint, datacenters, food production/distribution, efficient delivery of medical solutions/interactions, infrastructure.
 - d. <https://www.pwc.com/gx/en/capital-projects-infrastructure/publications/cpi-outlook/assets/cpi-outlook-to-2025.pdf>
2. Business with sustainable products
 - a. Coke, Clorox, DIS
3. Business with a Buffet “Moat”
 - a. BA, EFX, CRM, AMZN, BG, SMG, DIS <https://www.wsj.com/articles/companies-boost-capital-spending-betting-demand-will-stay-strong-11641835208>
4. Businesses where there is a monopoly, or at least limited players
 - a. Money Center Banks, Auto manufacturing,
5. Businesses with such large market share they are almost impossible to attack
 - a. KO and PEP have 21% and 10% of worldwide soft drink market. Next 80 companies do not have as much as these two. So they can either crush or buy out any competitor
 - b. INTC, NVDA, GOOGL, MSFT, V & MA
6. Businesses generating excess free cash flow
 - a. As free cash flow allows for stock buy backs, expanding the business, increasing dividends, acquisitions
 - b. AAPL, AMGN, ABBV, CVX, XOM, OMC, JNJ as examples
7. Out of favor breeds
 - a. In the 1980’s every family seemed to have a golden retriever, now they have pit bulls, maybe goldens make a come back
 - b. GILD, STZ, K, CPB, BA, MSFT, ADBE
8. Great companies that you really don’t understand ALL that they do, but they seem to do it well
 - a. GOOGL, MMM, GILD, UL